Service Date: February 23, 1996

DEPARTMENT OF PUBLIC SERVICE REGULATION
BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MONTANA

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| IN THE MATTER OF the Submission of Montana Power Company's 1995 Electric Integrated Least Cost Resource Plan. | ) | UTILITY DIVISION<br><br>DOCKET NO. 95.6.30<br>ORDER NO. 5884a |

**ORDER ON RECONSIDERATION**

BACKGROUND

1. Montana Power filed its 1995 Integrated Resource Plan on June 28, 1995. On July 17, 1995, the Commission issued a Notice of Filing of Least Cost Plan, Notice of Comment Deadline and Notice of Opportunity for Public Hearing. Written comments were received from Northern Plains Resource Council (NPRC), Montana Environmental Information Center (MEIC), Northwest Power Planning Council (NWPPC), Montana Consumer Counsel (MCC), Department of Environmental Quality (DEQ) and District XI Human Resource Council (HRC). A public meeting was held in Missoula on October 18, 1995.

2. The Commission hired a consultant to review the written comments and MPC's plan. The consultant filed her report on October 6, 1995. MPC submitted reply comments responding mostly to HRC's comments and then filed additional comments responding to the consultant's report. HRC then filed a reply to MPC's reply comments. On December 6, 1995, the consultant responded to MPC's criticisms of her report and provided the Commission a proposed response to MPC's 1995 Plan. The Commission evaluated the submissions and issued its Response on December 26, 1995 (see Order No. 5884)

MPC's MOTION

3. On January 8, 1996 MPC filed a Motion for Reconsideration. The motion asserts that the Commission's response does not address the Company's rebuttal of the consultant's and HRC's comments. The motion states that MPC's plan best balances all factors listed in ARM 38.5.2007 and that the Company is entitled to a more detailed explanation of why the Commission views the plan as inconsistent with certain resource planning guidelines.

4. In Finding of Fact 6, Order No. 5884, the Commission states that MPC's 1995 plan is inconsistent with certain resource planning guidelines because the planning and decision process does not result in the selection of a plan that minimizes long-term societal costs. The Commission also states that the planning process does not model demand-side resources in a way that allows them to compete on an equivalent and comparable basis with supply-side resources.

5. MPC disagrees with Finding of Fact 6 and requests that it be removed from the order. According to MPC, in Finding of Fact 6 the Commission equates minimizing long-term societal costs with minimizing dollar costs. MPC asserts that the Commission's order and the consultant's report ignore the Company's multi-attribute decision-making process and focus only on the results of the decision rule matrix. According to MPC the decision rule matrix only includes utility and customer costs. Other attributes such as risk were apparently addressed through application of judgement in selecting the final plan. Thus, MPC appears to suggest that by focusing only on the decision rule matrix results, the Commission's order is based on a review of dollar costs only, whereas MPC's application of judgement in addition to the results of the decision rule matrix represents a

societal view and, therefore, is consistent with the resource planning guidelines.

COMMISSION RESPONSE

6. The Commission grants MPC's motion to reconsider Order No. 5884. However, as explained below, the Company is not provided all of the relief it requested. The Company's request that the Commission find that the 1995 Plan satisfies the Integrated Least Cost Resource Planning guidelines is denied. The Commission provides a detailed explanation for this decision in the following findings.

7. The Commission understands the difference between societal costs and dollar costs and does not equate minimizing long-term societal costs with minimizing dollar costs in Finding of Fact 6. The Commission's resource planning guidelines, as a whole, emphasize that the primary goal of integrated resource planning is to minimize long-term societal costs. Societal costs are specifically defined as utility costs plus external costs imposed on society. External costs are recognized as costs that are not directly borne by the utility and therefore do not represent dollar costs to the utility. MPC's assertion on this issue appears to be based on the Company's belief that the Commission misunderstood what costs are reflected in the decision rule matrix scores. However, this is not the case.

8. The Commission's decision in Finding of Fact 6, Order 5884, is based in part on the fact that MPC's 1995 Plan did not evaluate competing resource plans based on the primary criterion of societal cost minimization. The Company's decision rule matrix illustrates this finding. MPC's motion states that the decision rule matrix only reflects utility and customer costs, but that the overall decision process involves considering the matrix result plus other attributes such as risk. The motion

states that the societal costs discussed by many of the commentors addressed only the matrix results. In its reply comments MPC stated that, although there is not a specific attribute labeled "societal costs," this does not mean they were not considered. Nevertheless, the absence of a specific societal cost attribute in the decision rule matrix concerns the Commission. The Commission's consultant, as well as several commentors including DEQ, HRC, NPRC and the MEIC also criticized MPC's failure to include societal costs in this aspect of the final decision process. Given these commentors' on-going participation in the Company's advisory committee, the Commission's concern does not appear to be the result of a misunderstanding of the decision process.[1] Further, given the resource planning guidelines' clear emphasis on minimizing societal costs, omitting this attribute when ranking alternative resource plans in the final decision process is a significant deficiency.

9. The Commission is also concerned by comments that the matrix double-counts certain evaluation criteria. For example, the decision rule matrix includes a rate attribute that reflects customer concerns, a net income and return on equity attribute that reflects shareholder concerns and another attribute which combines the rate and return on equity attributes. Thus, rate and return on equity concerns are effectively counted twice in

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[1] If MPC is suggesting that the members of its advisory committee misunderstood what costs are reflected in the decision rule matrix, and its role in the decision process, then the Commission's concern would become one of transparency.

developing a plan's decision rule matrix score. The Company's reply that correcting this double-counting effect does not change the selection of the final plan does not reassure the Commission that the focus of the decision rule matrix is consistent with the resource planning guidelines.

10. Finally, the costs underlying the decision rule matrix results are not completely void of information on other attributes such as risk. The resources included in each of the alternative final resource plans first passed a static screening analysis in which 102 potential resources were narrowed to 54 resources. This resource screening process selected the best resources based on societal criteria, which included both direct and indirect costs and benefits.[2] Part of the screening process involved a sensitivity analysis in which both quantifiable and non-quantifiable risks were evaluated and considered in the decision of whether or not to pass the resource. The resource costs underlying the alternative resource plans subjected to the decision rule matrix do reflect some consideration of risk. This does not suggest that MPC's additional risk analysis in the final decision process is inappropriate, but rather that MPC's effort to pass the lowest societal cost resources through the static screening process is incomplete absent a societal cost attribute in the decision rule matrix.

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[2] MPC's 1995 Integrated Least Cost Resource Plan, Chapter 6, p 6-21.

11. MPC's decision process led to the selection of Plan ST50-20M as the 1995 Plan. This resource plan relies on a low level of DSM. However, information in MPC's filing suggests that more DSM will result in lower societal costs. For example, MPC ranked the top 150 resource plans, according to societal costs, for each of three scenarios: Base Case, Short-Term 50 (ST50) and Short-Term 125 (ST125). For the Base Case scenario the number of plans with either high or medium DSM out number the plans with low DSM by almost a 5 to 1 margin. For the ST50 scenario the margin is 7 to 1 and for the ST125 scenario all plans rely on either medium or high DSM. HRC's comments recognize that at least the top 20 resource plans in each scenario contain either medium or high DSM. With the exception of the MCC, all commentors questioned the appropriateness of MPC's decision to significantly reduce its DSM budget and resource acquisition targets. NPRC specifically questioned whether the Company could realistically expect to achieve even its planned acquisition amounts given the magnitude of the budget cuts.[3] Both the Commission's consultant and Dr. Power from HRC conclude that a higher level of DSM will reduce societal costs. MPC's reply comments do not deny this assertion. MPC's final decision between resource plans appears to have focused on Plans ST50-20M, ST125-3M and BE-5. Plan ST125-3M had the lowest costs and included medium DSM. Plan ST50-20M had the lowest rates and included low DSM. Both the Commission's consultant and Dr. Power specifically question the Company's selection of Plan ST50-20M over Plan ST125-3M because the decision rule matrix scores are essentially the same; although, MPC asserts that Plan ST125-3M's average rates are 2.5 percent higher than ST50-20M's through the

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[3] Thomas J. Schneider, Comments on Montana Power Company's 1995 Electric Integrated Resource Plan, p 5.

year 2004.[4] Both Dr. Power and the consultant suggest that the differences between these plans may be small enough to fall within the range of error accompanying the modeling process.[5] In any case, it appears that when confronted with two plans that rank essentially the same based on the Company's decision rule matrix, MPC's decision process selects the plan with the lowest rates. In is unclear whether this would be the same result if

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4 It is unclear why MPC uses 2004 average rates in its reply given that the decision rule matrix score is based on an average system rate for the period 1994-2009 (1995 Integrated Least Cost Resource Plan, p 7-24). The Commission's consultant states that the difference in rates between the two plans is about 1% (about $.0007) if the 1994-2009 forecast period is considered (Ms. Mitchell's response to MPC, p 2 and Attachment 1).

5 Response to MPC's Criticism of Ms. Mitchell's Comments on MPC's 1995 ILCRP p 2. And May 8, 1995 Memo from T.M. Power to John Leland, Montana Power Company p 1.

the decision rule matrix specifically included a societal cost attribute.

12. Despite the absence of an explicit societal cost attribute in the decision rule matrix, MPC's 1995 Plan indicates that DSM can contribute to reducing total costs while perhaps not significantly raising average system rates. However, MPC states that a strict numerical decision process can hide trade-offs between plans. MPC therefore combines the matrix information with other quantifiable and nonquantifiable information to create "an informed decision making process."[6] But MPC does not appear to have applied this decision making process equally to both supply-side and demand-side resources. MPC's discussion of the quantifiable and nonquantifiable information which led to the selection of the 1995 Plan inadequately addresses the trade-offs of moving to a low DSM level.

13. The Company is understandably concerned with keeping rates low for competitive reasons and has determined that the low DSM portfolio offers slightly lower rates and helps reduce costs. However, higher DSM levels appear to produce lower societal costs and may provide consumers with lower bills. With regard to competitiveness, the Company should recognize that consumers may also employ multi-attribute decision-making processes in which rates are one among several considerations. Commentors also expressed concern that MPC's modeling process does not capture the true flexibility of DSM. Finally, the Goal and Policy section of the integrated resource planning guidelines states that achieving the lowest societal cost set of resources involves actively pursuing and acquiring all cost effective energy conservation. An integrated resource planning process consistent

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6 MPC's 1995 Integrated Least Cost Resource Plan, p 7-41.

with the Commission's guidelines should produce a plan that minimizes long-term societal costs. Given the above findings, the decision to move to a low DSM portfolio in the 1995 Plan appears to be based on a DSM evaluation that is incomplete and inconsistent with the Commission's guidelines.

14. The Commission's IRP guidelines provide utilities policy and planning guidance, they do not mandate investment decisions. The IRP guidelines and the Commission's response to utilities' plans should ensure that the Commission and the public know the potential implications of a utility's planned actions, before those actions are taken. A utility's action plan may differ from a resource plan designed purely to minimize long-term societal costs. If the Company's action plan diverges from the least societal cost plan in order to address rate concerns or other competitive criteria, a specific discussion to this effect should be included when describing the action plan. The Commission's concern with MPC's 1995 Plan is that, although the plan may satisfy MPC's objectives, it is unclear that it minimizes long-term societal costs and there is not an alternative plan from which to determine the societal impacts. For these reasons, the Commission cannot confidently conclude that the 1995 Plan satisfies the integrated resource planning guidelines. MPC is again encouraged to take full advantage of its alternative planning process to creatively re-examine the 1995 Plan and explore, with its advisory committee, the Company's decision to move to a low DSM level.

## CONCLUSIONS OF LAW

1. Montana Power Company is a public utility subject to the jurisdiction of the Montana Public Service Commission pursuant to Title 69, Chapter 3, MCA.

2. The Montana Public Service Commission may require public utilities providing electric service to file plans for meeting requirements of its customers (integrated least cost resource plans) in the most cost effective manner consistent with the utility's obligation to serve. § 69-3-1204 (3), MCA.

3. The Montana Public Service Commission may adopt guidelines to be used in preparing integrated least cost resource plans. § 69-3-1204 (3), MCA.

4. If integrated least cost resource plans do not meet the requirements of the Commission guidelines, the Commission must return the plan to the utility with a list of deficiencies and a time certain to submit a corrected plan. § 69-3-1204 (3), MCA.

5. The Montana Public Service Commission has adopted integrated least cost planning guidelines. ARM 35.5.2001-2012.

ORDER

1. Montana Power is hereby directed to make every effort to incorporate the suggestions and comments made in this order into its 1997 integrated least cost resource plan.

2. This Docket is hereby closed.

DONE IN OPEN SESSION at Helena, Montana, this 20th day of February, 1996 by a 3-2 vote.

BY ORDER OF THE MONTANA PUBLIC SERVICE COMMISSION

NANCY McCAFFREE, Chair

DAVE FISHER, Vice Chair
Dissenting - No Written Dissent

BOB ANDERSON, Commissioner

DANNY OBERG, Commissioner
Dissenting - No Written Dissent

BOB ROWE, Commissioner

ATTEST:

Kathlene M. Anderson
Commission Secretary

(SEAL)

NOTE: Any interested party may request that the Commission reconsider this decision. A motion to reconsider must be filed within ten (10) days. See 38.2.4806, ARM.